

York University AP/ADMS2500.03 Introduction to Financial Accounting  
Midterm Examination #1

**Time: 2.5 hours**

**Winter 2012**

**Questions: 40**

**Instructions:**

1. **Submit:** Only the pink mark sense sheet will be collected: you may keep this midterm examination paper. Mark your answers on it for later reference. Ensure your name is on the pink mark sense sheet.

2. **Mark Sense Sheet:**

- Record your name and student number and answer all questions on the computer mark sense sheet provided with an HB (soft lead) pencil. Bring several pencils in case one breaks. The computer will not recognize ink or hard lead pencils.
- Test Form is for the exam version you are writing (A, B or C) and Code is your Section (in the left column).
- Fill in the bubbles for your name and student number in pencil (your phone number is not required). Leave the last column of the student number BLANK .
- If you change an answer, use a high quality eraser to completely remove the previous mark. If the computer senses two answers to a question, only the first scanned will be recognized.

3. **Exam Aids:**

- Only calculators without alphanumeric programmable memories are allowed. It is strongly suggested you bring a couple of cheap 4 function computers to the exam in case one fails. Be prepared to be challenged by invigilators if you bring a “fancy” calculator.
- Compact foreign language/English dictionaries may be used. However, these will be examined by invigilators. If there are any loose pages or handwriting in the dictionary, it will be seized and you will be charged with academic dishonesty.
- In 2500, invigilators answer no questions of interpretation. They will pass along questions regarding possible errors/ typos/missing data to the head invigilator. If you believe a question contains an error and do not receive a response, make a detailed note on the back of your pink Scantron sheet and submit it with your paper.

4. **Exam Strategy**

- Careful budgeting of time on an accounting exam is essential. Bring a watch and check your progress regularly. Poor time management is the most common reason for poor exam performance in accounting.
- It is always a good idea to attempt the questions you deem easiest first. In an interrupted exam that is not restarted, your exam will be scored based on questions attempted.
- It is essential to transfer your answers to the grading sheet after each question in case the exam is interrupted by fire alarm.
- The last ten minutes of an exam should be devoted to double checking your transfers. What you submit is what is graded. If you have not transferred your answers to the mark sense sheet at the end of the exam, the invigilator will not wait. Your answer sheet will be seized and it will be graded based on whatever questions have choices filled in.
- Remember there is no penalty for guessing on a multiple choice computer graded exam. Submit a choice for every question. Also note that in 2500, *None of the above* does indeed represent a frequent correct choice to questions.

## 5. Exam room regulations:

- All personal belongings either on the floor or at the front of the exam room. All items on your desk will be examined by invigilators
- Bring appropriate ID as proof of registration. You will be required to sign in and show appropriate documentation. Students without ID will be allowed to write the exam, but will be photographed and asked to submit registration and photo ID to the School of Administrative Studies the next day.
- No student may leave the exam in the first hour. No student may start the exam after an hour. Students requiring restroom visits must be accompanied by an invigilator.
- The proctors will announce when there are 15 minutes remaining and any answers not transferred should be recorded at this time. No one is to leave their seat in the last 15 minutes.
- When time is called, the proctors will go down the rows collecting your answer sheets and this exam paper. They will not wait and they will not accept your sheet once they have passed. Any violation of this protocol will result in a grade of zero recorded for the exam.

## 6. Fire Alarms

- A frequent occurrence in York exams. In the event of a fire alarm, you are to leave your exam and answer sheet face down on your desk and immediately proceed outside with coats and all personal belongings. Print your surname on the back of the exam so you know which seat to return to. An invigilator will lead the group outside to a place of safety. There is to be no talking during the evacuation or outside. Most rooms are cleared so that exams can recommence, within 30 minutes of the alarm. You will be told after this time whether to reenter the room and recommence the exam or to go home.

## 7. Academic Dishonesty

- You are reminded that cheating is a serious offense which can result in expulsion from university.
- Exams at York are held in regular classrooms, which may involve tiered seating. Consequently, neck exercises are not allowed during exams. First instance of wandering eyes has the student relocated to the front of the room. Second instance results in seizure of paper.

## 8. Special Instructions

- This exam is divided into two parts. Part 1 is a case, which is related to a series of questions based on that case. While an attempt has been to minimize the impact of the impact of carry-forward errors in question design, some questions of necessity are related to multiple computations or previous questions, so an error potentially can have multi-mark impact.
- Part 2 are questions based on different and independent scenarios unrelated to the case of Part 1.
- Double check your transfers to the pink scantron sheet.
- The exam clearly indicates when a group of questions are related to a single data set. Otherwise, assume each question is independent of the others.
- With 150 minutes to do 40 questions, you should budget your time carefully and not spend more than 4 minutes on a question. If you do, you risk not finishing the exam. A time honoured exam strategy is to attempt the easiest questions first. This builds confidence, creates a bank of correct answers if the exam is terminated by fire alarm and also builds a time cushion to spend extra time on difficult questions.

## 9. Reminder

**This is a reminder to Submit** the pink mark sense sheet only, this exam paper will not be collected. Ensure your name is on the pink mark sense sheet and that you have marked your answers in this paper so you can check your answers when the correct answers are published.

**PART 1: John's Games Exchange Depot**  
*(Questions 1 to 25 are based on this case)*

John graduated from York University with his BAS, his whole family was very proud and happy of this achievement. John was not interested in working for others so he decided to start his own business. Uncle Feruccio, the owner of a successful construction company in the GTA, presented him with a gift of \$30,000 to start his venture.

So, on February 1<sup>st</sup>, 2012, John started a small retail business called "Games Exchange Depot". "Games Exchange Depot" is store that sells second hand games for the most popular consoles (PSP, Xbox, etc). John is well aware of the market as he himself is an avid gamer; he also has some experience in the sector as he spent a couple of summers working in a similar store in downtown Toronto. He knew the two major distributors of used games in Canada, John contacted them and they were interested in doing business with him. Based on his experience he determined that there was no store attending the needs of the northern GTA, therefore he set up his store at the Atlantic Mall.

The following is a list of transactions that occurred during the first month of operations of "Games Exchange Depot":

<b>February</b>	<b>Description</b>	<b>Amount</b>
1	Opened a business bank account with private resources for \$30,000 – money given to John by his Uncle as a gift.	\$30,000
1	Signed 12 month rental contract for his booth space for \$600 per month. First and last months were paid with cheque.	\$1,200
1	Purchase furniture for the new business with a cheque. After 4 years of use (estimated useful life) they can be sold as scrap for \$160	\$4,000
2	Purchase Office Supplies for new business on account	\$800
2	Purchase a combo of used PSP3 and Xbox for demonstration and trials of customers on the store. The equipment will last for 2 years and they will have no residual value.	\$2,400
4	Bought goods to sell from Vancouver Games on account	\$8,000
15	Sales of goods to various customers in cash	\$5,000
15	Paid in cash the services of a company that set up the booth (install the consoles and arrange games in the store shelves)	\$500
16	Purchased goods for sale on credit from NY Game Swap	\$7,000
16	Sale of goods to on account to the Gaming Clubs of Thornhill High School for \$150 and Markham High School for \$250	\$400
17	Return goods to NY Game Swap because they were broken inside the box	\$1,850
25	Cash sales to various customers	\$7,200
25	Paid in cash the services of distributing fliers outside the Mall (10 hours worked at \$15.00 per hour)	\$150
26	John withdrew some cash for personnel reasons	\$550
26	Cheque received from Markham High School	\$250

28	Send cheque to Vancouver Games for payment	\$6,000
28	Purchase and paid in cash a set of new exclusive games	\$3,500
28	Paid office supplies with cheque	\$800
28	Paid March's rent with a cheque	\$600
	<b>Additional information</b>	
29	The online bank statement for the month of February shows bank fees of \$20 and interest earned for \$18	
29	Utilities bill for \$138 was received for the month of February - payment due March 8 <sup>th</sup> , 2012	\$138
29	The people distributing fliers outside the mall are paid \$15.00 per hour, total hours worked for the month of February were 37	
29	Inventory of Office Supplies showed that there was \$615 remaining	
29	Inventory available for sale was \$8,100 at end of month	

Prepare "T" Accounts in Accrual Basis for "Games Exchange Depot" and then answer the questions.

*It is estimated that you will need 1 hour to prepare the T accounts, Income statement and Balance Sheet*

### Questions on JOHN'S GAMES EXCHANGE DEPOT Case

**This Section Questions 1-20 ONLY APPLIES TO ACCRUAL ACCOUNTING for "Games Exchange Depot" for the date ending February 29<sup>th</sup>, 2012:**

**1). What was the Cash balance at the end of the February 29, 2012?**

- A). less than \$10,000
- B). \$22,748
- C). \$22,750
- D). \$23,350
- E). None of the above is correct.

**2). What was the Cost of Goods Sold for the month of February 2012?**

- A). \$8,100
- B). \$8,550
- C). \$10,400
- D). \$16,650
- E). None of the above is correct.

- 3). What is the amount of Prepaid Rent for the date ending February 29, 2012?**
- A). \$0
  - B). \$600
  - C). \$1,200
  - D). \$1,800
  - E). None of the above is correct.
- 4). What is the total amount of all of the Accounts Payable for inventory purchases that “Games Exchange Depot” owes as of February 29, 2012?**
- A). \$15,800
  - B). \$9,000
  - C). \$7,950
  - D). \$7,150
  - E). None of the above is correct.
- 5). What was the value of depreciation for the furniture on the month of February?**
- A). \$80
  - B). \$83.33
  - C). \$100
  - D). \$4,000
  - E). None of the above is correct.
- 6). What was the payroll expense for the month of February 2012?**
- A). \$0
  - B). \$150
  - C). \$330
  - D). \$480
  - E) None of the above
- 7). What was the total unadjusted expenses for the month of February 2012?**
- A). \$17,300
  - B). \$650
  - C). \$17,438
  - D). \$16,650
  - E). None of the above is correct.
- 8). What was the Net Income for “Games Exchange Depot” for the month of February?**
- A). Negative (net loss)
  - B). \$1,965
  - C). \$1,967
  - D). \$12,600
  - E). None of the above is correct.

**9). The total expenses on Utilities for the month of February are:**

- A). \$0
- B). \$135
- C). \$138
- D). No enough information given for this answer
- E). None of the above is correct.

**10). The Unadjusted Trail Balance Sheet Balances for February 29, 2012 are:**

- A). Dr \$39,033 Cr \$39,033
- B). Dr \$49,200 Cr \$49,200
- C). Dr \$49,866 Cr \$49,866
- D). Dr \$50,121 Cr \$50,121
- E). None of the above is correct.

**11). What is the total amount of all of the Accounts Receivable that “Games Exchange Depot” is owed as of February 29, 2012?**

- A). \$0
- B). \$150
- C). \$250
- D). \$400
- E). None of the above is correct.

**12) What is the balance of Furniture that “Games Exchange Depot” shows in the Balance Sheet as of February 29, 2012?**

- A). \$0
- B). \$3,900
- C). \$3,920
- D). \$4,000
- E). None of the above is correct.

**13). What was the total adjusted expenses for the month of February 2012?**

- A). \$1,965
- B). \$10,653
- C). \$17,438
- D). No enough information given for this answer
- E). None of the above is correct.

**14). The total revenues for the month of February are:**

- A). \$12,200
- B). \$6,600
- C). No enough information given for this answer
- D). \$12,600
- E). None of the above is correct.

**15). What is the total Rent expense for the month of February 2012?**

- A). \$0
- B). \$600
- C). \$1,200
- D). \$1,800
- E). None of the above is correct.

**16). What are the Total of all Assets for “Games Exchange Depot”, at the end of February 2012?**

- A). \$30,933
- B). \$39,218
- C). \$39,213
- D). \$39,033
- E). None of the above is correct.

**17). What are the Total of all Liabilities for “Games Exchange Depot” at the end of February 2012?**

- A). \$7,618
- B). \$7,288
- C). \$7,150
- D). \$0
- E). None of the above is correct.

**18). What is the amount of supplies reported in the balance sheet at the end of February 2012?**

- A). \$985
- B). \$800
- C). \$615
- D). \$185
- E). None of the above is correct.

**19). What is the amount of inventory of goods reported in the balance sheet at the end February 2012?**

- A). \$0
- B). \$8,100
- C). \$8,550
- D). \$16,650
- E). None of the above is correct.

**20). What is the total bank expense for “Games Exchange Depot” at the end of February 2012?**

- A). \$0
- B). \$2
- C). \$18
- D). \$20
- E). None of the above is correct.

**This Section Question 21-25 ONLY APPLIES TO CASH BASIS ACCOUNTING for “Games Exchange Depot” for the date ending February 29, 2012:**

- 21). **What was the Cash balance at the end of the February 29, 2012?**  
A). less than \$10,000  
B). \$22,748  
C). \$22,750  
D). \$23,350  
E). None of the above is correct.
- 22). **What is the amount of Prepaid Rent for the date ending February 29, 2012?**  
A). \$0  
B). \$600  
C). \$1,200  
D). \$1,800  
E). None of the above is correct.
- 23). **What was the value of depreciation of the furniture for the month of February?**  
A). \$80  
B). \$83.33  
C). \$100  
D). \$0  
E). None of the above is correct.
- 24). **What was the payroll expense for the month of February 2012?**  
A). \$0  
B). \$150  
C). \$330  
D). \$480  
E). None of the above is correct.
- 25). **The total expenses for Utilities for the month of February are:**  
A). \$0  
B). \$138  
C). \$135  
D). No enough information given for this answer  
E). None of the above is correct.

## **PART 2: INDEPENDENT QUESTIONS**

(the remaining questions are totally unrelated to the case of Part 1)

**This Section Question 26-40 ONLY APPLIES TO the information provided in each question. They are not related to the “Games Exchange Depot” case.**

**26) On January 1, 2007, the ledger of Conglomo Corporation correctly showed supplies inventory of \$900. During 2007, supplies purchases amounted to \$6,000. A count (inventory) of supplies on hand at December 31, 2007, showed \$1,800. The 2007 income statement should report supplies expense amounting to**

- A) \$6,000
- B) \$1,800
- C) \$5,100
- D) \$6.900
- E) None of the above is correct.

**27) On January 1, 2009, Houston Company purchased a delivery truck that cost \$56,000. Cash of \$26,000 was paid, and the balance of \$30,000 was payable on January 31, 2010. The truck has an estimated useful life of four years and no residual value. Considering only these facts, depreciation expense (on the truck) for 2009, would be**

- A) \$56,000
- B) \$14,000
- C) \$7,500
- D) \$6.500
- E) None of the above is correct.

**28) At the end of its accounting period, December 31, 2009, Beamer Corporation owed \$2,000 for property taxes which had not been recorded or paid. Therefore, the 2009, adjusting entry should be**

- A) \$2,000 credited to an expense account and debited to a liability account
- B) \$2,000 debited to an expense account and credited to an asset account
- C) \$2,000 debited to a liability account and credited to an asset account
- D) \$2,000 credited to a liability account and debited to an expense account
- E) None of the above is correct.

**29) Which of the following describes adjusting entries?**

- A) they frequently change at least one income statement account balance and one balance sheet account balance.
- B) they usually are recorded as of the 15th day of the accounting period.
- C) they are primarily used to change account balances because of accounting errors that have been made.
- D) all of the statements are correct
- E) None of the above is correct.

**30) Failure to make an adjusting entry to recognize service revenue receivable would cause which of the following?**

- A) no effect on assets, liabilities, net income, nor shareholders' equity.
- B) an overstatement of assets, net income, and shareholders' equity
- C) an understatement of assets, net income, and shareholders' equity.
- D) an overstatement of assets and shareholders' equity and an understatement of net income.
- E) None of the above is correct.

**31) At the end of 2010, Dallas Company made the following adjusting entry to record \$10,000 accrued (unpaid) wages:**

**Dr Wage expense .....10,000**  
**Cr Wages payable .....10,000**

**A payroll of \$40,000 (including the \$10,000 accrued wages) was paid during the first week of January, 2011. The entry to record the payment of this payroll should include a**

- A) \$50,000 debit to wages expense and a \$10,000 debit to wages payable
- B) \$40,000 debit to wages expense and a \$10,000 debit to wages payable.
- C) \$30,000 debit to wages expense and a \$10,000 debit to wages payable.
- D) \$10,000 debit to wages expense and a \$30,000 debit to wages payable.
- E) None of the above is correct.

**32) The operating cycle of a business is best defined as which of the following?**

- A) One year.
- B) The time it takes for a company to purchase and pay for goods or services from suppliers, sell those goods or services to customers and collect cash from the customers.
- C) The length of time over which our plant and equipment assets are expected to be used by the company in generating revenues.
- D) The period of time for which we prepare our financial statements.
- E) None of the above is correct.

**33) During 2011, New Company earned service revenues amounting to \$200,000, of which \$120,000 were collected in cash; the balance will be collected in January 2012. The 2011 income statement of the company should report which of the following amounts for service revenues?**

- A) \$ 80,000
- B) \$120,000
- C) \$200,000
- D) \$320,000
- E) None of the above is correct.

**34) The owner of an office building should report rent collected in advance as a debit to cash and a credit to which of the following?**

- A) a revenue
- B) an expense
- C) an asset other than cash
- D) a liability
- E) None of the above is correct

**35) Orlando, Inc. purchased a piece of land with a new building on January 1, 2006. The land was valued at \$20,000 and the building was valued at \$140,000 with a 40-year life and a zero salvage (residual) value. How would the land and building appear in the plant, property and equipment section of the December 31, 2006, balance sheet?**

- A) Land and building at 160,000.
- B) Land at 20,000; Building at 140,000.
- C) Land at 20,000; Building at 140,000 less accumulated depreciation of 3,500
- D) Land at 20,000 less accumulated depreciation of 500; Building at 140,000 less accumulated depreciation of 3,500.
- E) None of the above is correct

**36) Linus Marcus Company delivered products to customers for which the customers were billed \$4,100,000. The company collected \$4,000,000 in cash from customers during the year. Indicate which of these amounts will appear on the income statement and which on the statement of cash flows.**

- A) \$4,000,000 appears on the statement of cash flows and \$4,100,000 appears on the income statement.
- B) \$4,100,000 appears on the statement of cash flows, and \$4,000,000 appears on the income statement
- C) \$4,000,000 appears on both the income statement and the statement of cash flows
- D) \$4,100,000 appears on both the income statement and statement of cash flows
- E) None of the above is correct.

**37) An "accrued" expense is an expense that:**

- A) Does not involve real sums of money
- B) Sits in the section of current liabilities called accrued liabilities
- C) Is estimated because it has been incurred but the cash flow happens later
- D) Is part of the asset section of the balance sheet
- E) None of the above is correct

**38) The statement which best embodies the concept of "Matching" would be:**

- A) Getting the costs associated with generating a revenue stream in the same income statement as that revenue stream
- B) Ensuring there is a liability to match each asset on the balance sheet
- C) Matching ensures that that each balance sheet account is paired with an income statement account
- D) Matching ensures that each accounting transaction is matched with an underlying accounting principle.
- E) None of the above is correct

**39) Owner's withdrawals**

- A) Happens when an owner withdraws the right of other companies to do business with the firm
- B) Are a return of invested capital to the owner
- C) Are an expense of doing business
- D) Are not allowed
- E) None of the above is correct.

**40) Which of the following defines liabilities?**

- A) Probable debts or obligations of an entity as a result of future transactions which will be paid with assets or services.
- B) Probable debts or obligations of an entity as a result of past transactions which will be paid with assets or services.
- C) Possible debts or obligations of an entity as a result of past transactions which will be paid with assets or services.
- D) Possible debts or obligations of an entity as a result of future transactions which will be paid with assets or services.
- E) None of the above is correct.

*End of exam*

## SOLUTIONS

Case Questions	Answer	Other Questions	Answer
1	<b>B</b>	26	<b>C</b>
2	<b>B</b>	27	<b>B</b>
3	<b>C</b>	28	<b>D</b>
4	<b>D</b>	29	<b>A</b>
5	<b>A</b>	30	<b>C</b>
6	<b>E</b> Correct answer given the numbers of the case was \$555	31	<b>B</b>
7	<b>A</b>	32	<b>B</b>
8	<b>E</b> Net income is \$1,890	33	<b>C</b>
9	<b>C</b>	34	<b>D</b>
10	<b>B</b>	35	<b>C</b>
11	<b>B</b>	36	<b>A</b>
12	<b>C</b> \$3,920* Furniture net of Acc. depreciation <b>D</b> \$4,000* Furniture	37	<b>C</b>
13	<b>E</b> Correct answer is \$10,728	38	<b>A</b>
14	<b>D</b>	39	<b>B</b>
15	<b>B</b>	40	<b>B</b>
16	<b>D</b>		
17	<b>E</b> The correct answer is \$7,693		
18	<b>C</b>		
19	<b>B</b>		
20	<b>D</b>		
21	<b>B</b>		
22	<b>A</b>		
23	<b>D</b>		
24	<b>B</b>		
25	<b>A</b>		

For detailed solution of the case please see the excel file.